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C O N F I D E N T I A L SECTION 01 OF 02 AMMAN 001125

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SUBJECT: IRAQ WORLD BANK CHIEF ON ASSISTANCE ISSUES

REF: 2004 AMMAN 8107

Classified By: DAVID HALE, CHARGE D'AFFAIRES A.I.,
REASONS: 1.4 (B &D)

1. (U) This message was cleared by Embassy Baghdad.

Summary

2. (U) The head of the World Bank's Iraq Mission discussed with emboff a wide range of Iraq assistance issues, including the upcoming February 8-10 World Bank negotiations with the IIG, planned FY2005 World Bank (IDA and International Reconstruction Fund Facility for Iraq (IRFFI) Trust Fund) programs, the need for coordinated donor assistance on electricity and gas projects, preparation by the Iraqi government of gas and electricity "master plans," and emerging World Bank support for infrastructure projects at the Iraq-Jordanian border. End Summary.

IDA Negotiations

3. (SBU) The head of the World Bank's Iraq mission, Faris Hadad-Zervos, is based in Amman pending improvement in the Iraq security environment. On February 7 he discussed with emboff the Bank's upcoming (February 8-10) meeting in Amman with an Iraqi government team to be led by the Deputy Ministers of Planning and Finance. Hadad-Zervos said that the World Bank has already determined, and the Iraqi Strategic Review Board already approved, notional allocations of the planned \$500 million WB International Development Assistance (IDA) loan, and for the approximately \$200 million in anticipated FY 2005 World Bank-administered IRRFI trust fund resources. Without providing dollar breakdowns, he said that the combined FY 2005 World Bank assistance program will target the following sectors: water, sanitation, health, education, power, environment, and transportation, the latter three being new sectoral assistance areas for the Bank.

4. (C) Since agreement with the Iraqis on the WB FY 2005 project menu has already been reached, Hadad-Zervos suggested that the main task of the February 8-10 discussions will be to reach agreement on project implementation modalities and creation of a framework for future development in keeping with the strategic development plan submitted to donors last October in Tokyo. On modalities, Hadad-Zervos predicted that the Iraqis will press hard for revision of current procurement procedures under which the Iraqi government awards contracts, but the World Bank reviews these and makes all contractor payments. Hadad-Zervos expressed strongly that the WB will not amend these procurement procedures, which he said are commonly applied by the Bank to countries that (like Iraq) are still transiting to a transparent and effective financial management system.

Need for Iraq Power Generation "Master Plan"

5. (C) Hadad-Zervos stressed the Bank's new initiative to require development of Iraqi government "master plans" for electricity and gas as well as the power generation sector in general. These will be financed out of the \$100 million in FY 2005 Bank loans for the Iraqi power sector. Hadad-Zervos stressed that the Bank feels that the Iraqis need to take greater control in setting standards for future power sector projects, and in enforcing greater coherence and coordination into what he depicted as a cacophony of proposed donor projects. He added that development of a comprehensive master plan will help improve donor reflection and coordination on how best to address Iraq's 3300-megawatt power generation shortfall. Currently, he claimed, many donors are pursuing "micro," localized approaches to the power generation issue, addressing local problems without considering larger issues like future sustainability, overall infrastructure incompatibility, or future budgetary implications.

6. (C) For example, he alleged, one major donor project already underway may have the effect of isolating an important segment of Iraq from the rest of the Iraqi electricity grid. Another example he cited was alleged donor disparities on construction of gas-versus oil-powered

electric generators: both are being procured, thereby creating a possibly needless logistics burden for future Iraqi governments. All of these are problems that the Bank expects the master plan to ease. In a related comment Hadad-Zervos also expressed concern that some donors are pursuing ambitious and potentially expensive projects (such as notional transmission of Egyptian electricity through Jordan, or construction of an Iraq-directed power generation facility in Kuwait) without adequate consideration or perhaps awareness of the technical and regional obstacles involved. (Note: A USTDA consultant who has examined this issue from the Jordanian side told us recently that due to technical obstacles transference of more than 100 megawatts of electricity from Jordan to Iraq will require at least \$120 million in (currently unplanned) new Jordanian infrastructure investment. He also advised against the transference of lesser amounts of electricity to Iraq through Jordan without this investment, due to a high risk of damage to generators on the Iraqi side. End Note).

Jordan,s Role

17. (C) Noting that Jordan is scheduled to be the host country for the next IRFFI conference (tentatively projected for next April), Hadad-Zervos commented that the Jordanians appear to be hoping for both ministerial-level attendance and donor pledging activity, neither of which, he said, is in the cards. Hadad-Zervos touched on Jordan,s laundry list of approximately \$1 billion in "Iraq reconstruction-related" infrastructure projects, all of which have been publicly endorsed by the IIG (reftel). Hadad-Zervos confided that the Iraqis have privately told the Bank that they regard all but one of these Jordanian proposals (which include an Aqaba port upgrade, a Baghdad-Aqaba railroad, and improvements in Jordan-Iraq road links) as low priority projects that should not be funded out of any currently committed Iraqi reconstruction funds.

18. (C) The exception, he related, is a Trebil-Karama border infrastructure project costing between \$50-65 million (Jordanian estimates run higher) intended to streamline security and stimulate industrial and other commercial growth on both sides of the border. Hadad-Zervos related that after some shuttle diplomacy the Jordanians agreed to an Iraqi request to make the project less "Jordan-centric" by shifting some of the infrastructure development to the Iraqi side. As a result, he said, the GOI has requested that the Bank either apply IRFFI trust fund money or find other assistance funding for this project. Hadad-Zervos said that the Bank is willing to do this, provided that the two sides first harmonize their customs and security procedures in the border area. Hadad-Zervos related that both sides have agreed, and that a bilateral Joint Commission is already being set up to implement these harmonizations. Despite what he saw as strong good will on both sides, Hadad-Zervos predicted that the harmonization process will be significantly delayed due to allegedly deep-seated internal inter-agency conflicts within both countries, especially Jordan (Comment: The King's interest in the border project may make resolution of the harmonization issues easier than Hadad-Zervos believes. End Comment). Nonetheless, he was confident the harmonizations will eventually be achieved, thereby "establishing a model" for Iraq's other border links.

9 (C) Embassy Baghdad Comment: We agree with Hadad-Zervos,s emphasis on the need for better coordination and for the Iraqis to take the lead in this area; both are priorities for us. As for the IRFFI conference, we anticipate that it will take place in May rather than April. We believe delaying the conference would give the new Iraq Transitional Government more time to prepare for the conference and to approach donors for new pledges in light of the successful January 30 election.

HALE